Michigan Deptartment of Treasury 496 (2-04) Auditing Procedures Report

	er P.A. 2 of 1				s Rep	ort						
Local Gov	ernment Type			Village	Cther		Local Government Name Vernon Township					
Audit Date 3/31/06												
accordar Financia	nce with the state of the state	ne S	tatem	ents of	the Govern	mental Accou	unting Stand	dards Board (an opinion or GASB) and thigan Departme	ne Uniform	n Repo	ents prepared in orting Format fo
We affire		lied v	with th	e Rullet	in for the A	udits of Local I	Units of Gove	ornmont in Mic	chigan as revis	ad		
						d to practice in		erriinent in wiic	angan as revis	eu.		
We furth		e foll	owing	. "Yes" ı				financial state	ements, includi	ng the note	es, or in	n the report of
You must	check the	app	icable	box for	each item b	pelow.						
Yes	✓ No	1.	Certa	in comp	onent units	/funds/agencie	es of the loca	al unit are excl	uded from the	financial s	tateme	ents.
Yes	√ No	2.		e are ac of 1980).		deficits in one	e or more of	this unit's un	reserved fund	balances/r	etaine	d earnings (P.A.
Yes	✓ No	3.		e are in: nded).	stances of	non-complian	nce with the	Uniform Acco	ounting and Bo	udgeting A	ct (P.A	A. 2 of 1968, as
Yes	✓ No	4.	The requi	local un rements	it has viola , or an orde	ited the condi rissued unde	litions of either the Emerge	ner an order i ency Municipal	issued under I Loan Act.	the Munici	pal Fi	nance Act or its
Yes	√ No	5.	The I	ocal uni nended	t holds dep [MCL 129.9	oosits/investme 1], or P.A. 55	ents which of 1982, as	lo not comply amended [MC	with statutory L 38.1132]).	requireme	ents. (F	P.A. 20 of 1943,
Yes	√ No	6.	The l	ocal unit	has been o	delinquent in d	distributing ta	x revenues tha	at were collect	ed for anot	her ta	king unit.
Yes	√ No	7.	pensi	on bene	efits (norma	I costs) in the	e current yea	r. If the plan i	cle 9, Section is more than 1 ons are due (pa	00% funde	ed and	ent year earned the overfunding r).
Yes	√ No	8.	The I	ocal uni . 129.24	it uses cred 1).	dit cards and	has not add	opted an appl	icable policy a	as required	l by P	.A. 266 of 1995
Yes	✓ No	9.	The l	ocal unit	has not ad	opted an inves	stment policy	as required b	y P.A. 196 of	1997 (MCL	129.9	5).
We have	enclosed	l the	follov	ving:					Enclosed	To B		Not Required
The lette	r of comm	ents	and re	ecomme	ndations.				1			
Reports	on individu	al fe	deral	financial	assistance	programs (pro	ogram audits	s).		1		1
Single A	udit Repor	ts (A	SLGU).								· ✓
1	ublic Account			,								
Baird, Street Add	Cotter au	nd B	isho	p, P.C.				City		State	710	
134 W	est Harri	s Stı	eet					Cadillac	State ZiP 49601			
Accountan	t Signature	6	7 (a.	nd	CPA				Date 8/3	31/0	6

$\frac{\text{VERNON TOWNSHIP, ISABELLA COUNTY}}{\text{CLARE, MICHIGAN}}$

MARCH 31, 2006

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$\frac{\text{VERNON TOWNSHIP, ISABELLA COUNTY}}{\text{CLARE, MICHIGAN}}$

MARCH 31, 2006

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

June 21, 2006

INDEPENDENT AUDITORS' REPORT

To the Township Board Vernon Township Isabella County Clare, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Vernon Township, Isabella County, Clare, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Vernon Township, Isabella County, Clare, Michigan as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note I, the Township has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments as of April 1, 2004.

The management's discussion and analysis on pages iii through ix and budgetary comparison information on page 18 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Vernon Township, Isabella County, Clare, Michigan's basic financial statements. The combining and individual fund financial statements, and other supplementary information are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotte & Bishop, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Vernon Township, a general law township located in Isabella County has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Vernon Township board's discussion and analysis of the financial results for the fiscal year ended March 31, 2006.

Financial Highlights

- ♦ The assets of the Township exceeded its liabilities at the close of the fiscal year by \$224,691. Of this amount, \$120,855 may be used to meet the township's ongoing obligations to citizens and creditors.
- ◆ As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$217,571. About 55.55% is available for spending at the Township's discretion.
- ◆ The Township is not obligated under any long-term debt as of March 31, 2006.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components. 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2006 for Vernon Township. The *government-wide* financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The entire Township's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

The *Statement of Net Assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *Statement of Activities* presents information showing how the Township's net assets changed during the fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Township's that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

Fund Financial Statements

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds – Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Township does not maintain any proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements, this report further presents Required Supplementary Information (RSI) that explains and supports the information presented in the financial statements.

Government-Wide Financial Analysis

The Statement of Net Assets is the first statement in the Government-Wide Financial Statements section of this document. This statement is useful for providing an indicator of the Township's financial position over time. The Net Assets of the Township are \$224,691 at March 31, 2006, meaning the Township's assets were greater than its liabilities by this amount.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Vernon Township Net Assets as of March 31, 2006

	Governmenta Activities				
Assets					
Current Assets	\$	218,178			
Non Current Assets					
Capital Assets	\$	7,466			
Less: Accumulated Depreciation		(346)			
Total Non Current Assets	\$	7,120			
Total Assets	\$	225,298			
Liabilities					
Other Liabilities	\$	607			
Net Assets					
Invested in Capital Assets	\$	7,120			
Restricted for Specific Purposes		96,716			
Unrestricted		120,855			
Total Net Assets	\$	224,691			
Total Liabilities and Net Assets	\$	225,298			

The most significant portions of the Township's Net Assets are cash and investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others) less any related debt that is outstanding that the Township used to acquire the asset. The Township has \$120,855 in unrestricted Net Assets. These assets represent resources that are available for appropriation, but are limited by Township policies regarding their use.

At the end of the current fiscal year, the Township is able to report positive balances in all categories of net assets for the government as a whole, as well as for its separate governmental activities.

The total net assets of the Township increased by \$46,120 in this fiscal year, which is an indicator that the Township experienced positive financial growth during the year. As a result, the Township ended the fiscal year in better condition then when the year began.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

The following table illustrates and summarizes the results of the changes in the net assets for the Township. The condensed information was derived from the government-wide Statement of Activities.

Vernon Township Change in Net Assets for the Fiscal Year Ended March 31, 2006

	vernmental activities
Revenues	
Program Revenues	
Charges for Services	\$ 5,545
Operating Grants and Contributions	78,134
Capital Grants and Contributions	4,000
General Revenues	
Property Taxes	38,451
State Shared Revenue	97,685
Licenses and Permits	1,143
Unrestricted Investment Earnings	3,862
Other	 2,453
Total Revenues	\$ 231,273
Expenses	
Legislative	\$ 3,864
General Government	55,755
Public Safety	31,047
Public Works	83,129
Recreation and Cultural	556
Other Functions	 10,802
Total Expenses	\$ 185,153
Change in Net Assets	\$ 46,120
NET ASSETS - Beginning of Year	 178,571
NET ASSETS - End of Year	\$ 224,691

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Governmental Activities

During the fiscal year ended March 31, 2006, the Township's net assets increased by \$46,120 in the governmental funds. The majority of this increase represents the degree to which increases in ongoing revenues have outstripped similar increases in ongoing expenses. This is true despite the fact that GASB 34 now requires the Township to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

The most significant portion of the revenue for all governmental activities of Vernon Township comes from property taxes and special assessments. The Township levied 0.9919 mills for operating purposes. The Township also levied a special assessment for Garbage and Rubbish Collection and for Street Lighting.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax. In fiscal year 2006, the amount of state shared revenue received by the Township trended downward, representing declining sales tax collections and discretionary reductions by the State in revenue sharing payments.

The Township's governmental activities expenses are dominated by public works expenses that total 44.90% of total expenses. The Township spent \$83,129 in fiscal year 2006 on Public Works expenses. General Government represented the next largest expense at \$55,755, or 30.11% of total expenses. Expenses for salaries and contracted services represent a large portion of the General Administrative expenses at \$38,216. Depreciation expense added another \$337.

Business-Type Activities

The Township does not maintain any Business-Type Activities.

Financial Analysis of the Government's Funds

Governmental Funds The focus of Vernon Township's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Township's financing requirement. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, Vernon Township's governmental funds reported combined ending fund balances of \$217,571. Approximately 55.55%, or \$120,855 constitutes unreserved fund balance. The remainder of the fund balance is reserved for specific purposes and is therefore not available for new appropriation. For example, the fund balance that is reserved for cemetery perpetual care must be used for expenditures that relate to cemetery care.

General Fund – The General Fund increased its fund balance by \$30,536 which brings the fund balance to \$120,855. The General Fund's fund balance is unreserved. All of the General Fund's functions, except for elections, ended the year with expenditures below budgeted amounts. The elections differential was funded

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

by available fund balance. Property taxes amounted to \$38,451. State shared revenues were collected in the amount of \$97,685.

Street Lighting Fund – The Street Lighting Fund increased its fund balance by \$204 which brings the fund balance to \$1,167. This balance is reserved and must be used for street lighting. Special assessments collected amounted to \$1,300.

Garbage and Rubbish Collection Fund – The Garbage and Rubbish Collection Fund balance increased its fund balance by \$7,509 which brings the fund balance to \$71,750. This balance is reserved and must be used for garbage and rubbish collection. Special assessments collected amounted to \$76,834.

Cemetery Perpetual Care Fund – The Cemetery Perpetual Care Fund balance increased its fund balance by \$754 which brings the fund balance to \$23,799. This balance is reserved and must be used for cemetery operations.

Proprietary Fund – The Township does not maintain any proprietary funds.

Capital Assets and Debt Administration

Capital Assets. The Township's investment in capital assets for governmental activities as of March 31, 2006 amounted to \$7,120 net of accumulated depreciation. There was no change in the Township's investment in capital assets for the current fiscal year.

Capital assets summarized below include any items purchased with a cost greater than \$1,000 individually and that have a useful life greater than one year. A summary of capital asset categories is illustrated below:

Vernon Township Capital Assets as of March 31, 2006

	 ernmental ctivities
Land and Land Improvements	\$ 3
Buildings	1
Equipment, Furniture and Fixtures	 7,462
	\$ 7,466
Less Accumulated Depreciation	 (346)
Net Capital Assets	\$ 7,120

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED MARCH 31, 2006

Major capital asset events during the current fiscal year included the following:

- Two new laptop computers were purchased.
- An optical scanner voting machine was received from the State of Michigan.

Long-Term Debt. Vernon Township has no obligation for any long-term debt as of March 31, 2006.

Economic Condition and Outlook

The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means potential further reductions in state-shared revenues.

These factors were considered in preparing the Township's budgets for the 2006-07 fiscal year.

Request for Information

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the Township's finances and to demonstrate the Township's accountability for the money it receives. If you have any questions about this report or need any additional information, contact Vernon Township at 8191 N. Crawford Road, Clare, Michigan 48617.

STATEMENT OF NET ASSETS MARCH 31, 2006

	GOVERN ACTIV	
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash	\$	203,095
Receivables		
Taxes		22
External Parties (Fiduciary Funds)		5
Due from Other Governments		15,056
Total Current Assets	\$	218,178
CAPITAL ASSETS		
Land	\$	3
Buildings		1
Equipment		7,462
	\$	7,466
Less Accumulated Depreciation		(346)
Net Capital Assets	\$	7,120
TOTAL ASSETS	\$	225,298
LIABILITIES		
CURRENT LIABILITIES		
Payroll Taxes and Withholdings	\$	607
NET ASSETS		
Invested in Capital Assets Net of Related Debt		7,120
Restricted for Street Lighting		1,167
Restricted for Garbage and Rubbish Collection		71,750
Restricted for Cemetery Perpetual Care		23,799
Unrestricted		120,855
TOTAL NET ASSETS	\$	224,691

STATEMENT OF ACTIVITIES YEAR ENDED MARCH 31, 2006

_ _				P	NET (EXPENSES) REVENUES AND CHANGE IN NET ASSETS				
					CAPITAL		TOTAL		
			CH	ARGES FOR	GR.	ANTS AND	GRANTS AND	GOV	ERNMENTAL
FUNCTIONS/PROGRAMS	EX	XPENSES	S	SERVICES	CON	TRIBUTIONS	CONTRIBUTIONS	A	CTIVITIES
PRIMARY GOVERNMENT									_
GOVERNMENTAL ACTIVITIES									
Legislative	\$	3,864	\$	0	\$	0	\$ 0	\$	(3,864)
General Government		55,755		5,545		0	4,000		(46,210)
Public Safety		31,047		0		0	0		(31,047)
Public Works		83,129		0		78,134	0		(4,995)
Recreation and Cultural		556		0		0	0		(556)
Other Functions		10,802		0		0	0		(10,802)
Total Governmental Activities	\$	185,153	\$	5,545	\$	78,134	\$ 4,000	\$	(97,474)
	GEN	NERAL RE	VENU	UES					
		operty Taxe						\$	38,451
		censes and		its				·	1,143
	St	ate Shared	Reven	nue					97,685
				ment Earnings					3,862
Other									2,453
Total General Revenues								\$	143,594
Change in Net Assets							\$	46,120	
NET ASSETS - Beginning of Year									178,571
	NET	ΓASSETS -	End	of Year				\$	224,691

The accompanying notes are an integral part of the financial statements.

GOVERNMENTAL FUNDS

BALANCE SHEET MARCH 31, 2006

	GENERAL FUND	LIC	TREET GHTING FUND	AN	GARBAGE D RUBBISH DLLECTION FUND	PEF	METERY RPETUAL RE FUND	ТОТ	'ALS
<u>ASSETS</u>									
Cash	\$106,379	\$	1,167	\$	71,750	\$	23,799	\$203	3,095
Taxes Receivable	22		0		0		0		22
Due From Other Governments	15,056		0		0		0	15	5,056
Due From Other Funds	5		0		0		0		5
Total Assets	\$121,462	\$	1,167	\$	71,750	\$	23,799	\$218	3,178
LIABILITIES AND FUND BALANCE LIABILITIES Payroll Taxes and Withholdings	\$ 607	\$	0	\$	0	\$	0	\$	607
	Ψ 007	Ψ		Ψ		Ψ			007
FUND BALANCE Reserved for:									
Street Lighting	\$ 0	\$	1,167	\$	0		0	1	,167
Garbage and Rubbish Collection	0	Ψ	0	Ψ	71,750		0		,750
Cemetery Perpetual Care	0		0		0		23,799		3,799
Unreserved							,		,
Undesignated	120,855		0		0		0	120),855
Total Fund Balance	\$120,855	\$	1,167	\$	71,750	\$	23,799	\$217	,571
TOTAL LIABILITIES AND FUND BALANCE	\$121,462	\$	1,167	\$	71,750	\$	23,799	\$218	
I OID DIMINOL	Ψ121, +02	Ψ	1,107	Ψ	11,130	Ψ	23,177	Ψ210	,,170

GOVERNMENTAL FUNDS

Total Fund Balances for Governmental Funds	\$	217,571
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Land	\$ 3	
Buildings	1	
Equipment, Furniture and Vehicles	7,462	
Accumulated Depreciation	(346)	7,120
•		·
NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	224,691

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE YEAR ENDED MARCH 31, 2006

				GARBAGE AND RUBBISH COLLECTION FUND		CEMETERY PERPETUAL CARE FUND		TOTALS
<u>REVENUES</u>								
Taxes	\$ 38,451	\$	1,300	\$	76,834	\$	0	\$116,585
Licenses and Permits	1,143		0		0		0	1,143
State Grants	101,685		0		0		0	101,685
Charges for Services	4,795		0		0		750	5,545
Interest and Rents	3,858		0		0		4	3,862
Other Revenues	2,453		0		0		0	2,453
Total Revenues	\$152,385	\$	1,300	\$	76,834	\$	754	\$231,273
<u>EXPENDITURES</u>								
Legislative	\$ 3,864	\$	0	\$	0	\$	0	\$ 3,864
General Government	62,872		0		0		0	62,872
Public Safety	31,047		0		0		0	31,047
Public Works	12,708		1,096		69,325		0	83,129
Recreation and Cultural	556		0		0		0	556
Other Functions	10,802		0		0		0	10,802
Total Expenditures	\$121,849	\$	1,096	\$	69,325	\$	0	\$192,270
Net Change in Fund Balance	\$ 30,536	\$	204	\$	7,509	\$	754	\$ 39,003
FUND BALANCE - Beginning of Year	\$ 90,319	\$	963	\$	64,241	\$	23,045	\$178,568
FUND BALANCE - End of Year	\$120,855	\$	1,167	\$	71,750	\$	23,799	\$217,571

GOVERNMENTAL FUNDS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES MARCH 31, 2006

Net change in Fund Balance - Total Governmental Funds	\$ 39,003
Amounts reported for governmental activities are different because:	
Governmental funds report capital outlays as expenditures in the statement of	
activities. These costs are allocated over their estimated useful lives as	
depreciation.	
Depreciation Expense	(337)
Capital Outlay	 7,454
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ 46,120

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES MARCH 31, 2006

	AGENCY F	UNDS
ASSETS Cash	\$	5
<u>LIABILITIES</u>		
Due to Other Funds	\$	5

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Vernon Township is a general law township located in Isabella County which operates under the direction of an elected township board. Under the criteria established by accounting principles generally accepted in the United States of America, the Township has determined that there are no component units which should be included in its reporting entity.

B. Government-wide and Fund Financial Statements

During fiscal year 2005, the Township adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Township as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, interest and special assessments associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivables due within the current period is considered to be susceptible to accrual as revenue of the current period. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The accounts of the Township are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Vernon Township reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Street Lighting Fund* accounts for revenue sources from special assessments that are legally restricted to expenditures related to street lighting.

The Garbage and Rubbish Collection Fund accounts for revenue sources from special assessments that are legally restricted to expenditures for garbage and rubbish collection.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

The *Cemetery Perpetual Care Fund* accounts for receipts from the sale of cemetery lots, the principal of which is an endowment, and the interest earnings are used for cemetery operations.

Additionally, Vernon Township reports the following fund types:

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the Township holds for others in an agency capacity.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions involved. Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use the restricted resources first, then unrestricted resources as they are needed.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities or three months or less from date of acquisition.

The investment policy adopted by the Township states that the Vernon Township Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- a. Certificates of Deposit
- b. Checking accounts
- c. Money market accounts

2. Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on the property as of the date they are levied. State education taxes and one-third of county taxes are levied and due July 1, and become delinquent after September 15. The remaining millages are levied and due December 1, and become delinquent after February 14. Collections of taxes and remittances of them are accounted for in the Current Tax Collection Fund. Township property tax revenues are recognized when they become both measurable and available for use to finance Township operations. Amounts which are not expected to be collected within sixty days are treated as deferred revenues.

The 2005 taxable valuation of Vernon Township totaled \$31,976,581, on which ad valorem taxes levied consisted of 0.9919 mills for Vernon Township operating purposes. The levy raised approximately \$31,675 for operating purposes. The Township also levied a special assessment for Garbage and Rubbish Collection and for Street Lighting.

3. Inventories and Prepaid Items

Inventories are not significant and are expensed as required.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units are depreciated using the straight line method over the following estimated useful lives:

<u>ASSETS</u>	<u>YEARS</u>
Buildings	50
Building improvements	20
Public domain infrastructure	50
Land improvements	20
Vehicles	10
Equipment and Furniture	5-10

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

Vernon Township qualifies as a phase 3 governmental unit in regards to the implementation of GASB 34. Phase 3 governmental units are not required to retroactively capitalize infrastructure. As a result, the Township will capitalize and depreciate infrastructure beginning April 1, 2004, in accordance with the Township's capitalization policy.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Use of Estimates

The presentation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The annual budget is adopted on the modified accrual basis in accordance with the requirements of Michigan Public Act 621 of 1978 "The Uniform Budgeting and Accounting Act". A public hearing is held to obtain taxpayer comments. Appropriations lapse at year end. Budget amounts are as originally adopted on March 21, 2006, or as amended by the Township Board from time to time throughout the year.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. Deposits and Investments

The Township's deposits are on deposit with Chemical Bank in Clare, Michigan, First Bank in Mt. Pleasant, Michigan and Isabella Bank and Trust in Mt. Pleasant, Michigan.

Investment rate risk. The Township will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the Township's cash requirement.

Foreign currency risk. The Township is not authorized to invest in investments, which have this type of risk.

Credit risk. The Township will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the Township's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the Township will do business in accordance with the Township's investment policy.

Concentration of credit risk. The Township will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of March 31, 2006, of the government's bank balance of \$203,865, \$69,545 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Township's investments are categorized to give an indication of the level of risk assumed by the Township at year end. Category 1 includes investments that are insured or registered, or securities held by the Township or the Township's agent in the Township's name. Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the Township's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the Township's name. At year end, the Township held no investments.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

B. Receivables

Receivables as of year end for the government's individual major funds are as follows:

		General
Receivables	•	
Taxes	\$	22
Intergovernmental		15,056
Taxes	\$	15,078

The allowance for doubtful accounts is not considered to be material for disclosure. As a result, its uncollectible accounts are virtually nil.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the fiscal year, the Township did not have any deferred revenue.

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

C. Capital Assets

	•	nning			ъ			Ending
Governmental activities:	Bal	ance	ln	creases	Decr	reases	В	alance
Capital assets, not being depreciated								
Land	\$	3	\$	0	\$	0	\$	3
Capital assets, being depreciated								
Buildings	\$	1	\$	0	\$	0	\$	1
Machinery and equipment		8		7,454		0		7,462
Total capital assets, being depreciated	\$	9	\$	7,454	\$	0	\$	7,463
Less accumulated depreciation for:								
Buildings	\$	1	\$	0	\$	0	\$	1
Machinery and equipment		8		337		0		345
Total accumulated depreciation	\$	9	\$	337	\$	0	\$	346
Total Capital assets, being depreciated, net	\$	0	\$	7,117	\$	0	\$	7,117
Governmental activities capital assets, net	\$	3	\$	7,117	\$	0	\$	7,120

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General Government \$ 337

Construction Commitments:

The government has no outstanding construction commitments as of March 31, 2006.

D. Interfund Receivables, Payables and Transfers

Individual fund interfund receivable and payable balances at March 31, 2006, were:

	INTI	ERFUND	INTERFUND
	RECE	IVABLES	PAYABLES
<u>Fund</u>	DUE	FROM'S	DUE TO'S
General Fund	\$	5 \$	0
Fiduciary Funds			
Current Tax Collection Fund		0	5
	\$	5 \$	5

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

All remaining balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All are expected to be resolved within one year.

Transfers are used (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. The Township has no interfund transfers.

E. Long-Term Debt

At March 31, 2006, the Township was not obligated for any long-term debt.

F. Fund Balance Reserves

In order to comply with generally accepted accounting principles and meet certain legal requirements, the Township has reserved fund balances in various funds. These reserves are detailed in the following schedule:

<u>NET ASSETS</u>	
Restricted	
Special Revenue Fund	
Special Purposes	\$ 72,917
Permanent Funds	
Perpetual Care	23,799
	\$ 96,716
FUND BALANCE	
Reserved	
Special Revenue Funds	
Street Lighting Fund	
Street Lighting	\$ 1,167
Garbage and Rubbish Collection Fund	
Garbage and Rubbish Collection	71,750
Permanent Funds	
Cemetery Perpetual Care Fund	
Cemetery Perpetual Care	23,799
V 1	
TOTAL FUND BALANCE RESERVATIONS	\$ 96,716

NOTES TO FINANCIAL STATEMENTS MARCH 31, 2006

IV. OTHER INFORMATION

A. Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Township participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, workers compensation insurance and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required for the current year or the three prior years.

The Township continues to carry insurance for other risks of loss, including fidelity bonds.

B. Retirement Plan

The Township has a defined contribution pension plan with John Hancock Life Insurance Company which covers Township employees who have satisfied the eligibility requirements. Each employee becomes eligible for coverage on the first policy anniversary date which the employee reaches age 18. An employee's normal retirement age is age 65 or the 5th anniversary of the first day of the plan year in which participation in the plan commenced.

The formula for determining contributions is based on an employee's annual compensation. The Township contributions to the plan are based on a graduated scale based on the level of compensation.

Township contributions to the plan for 2005-2006 amounted to \$5,435. In addition the Township paid \$419 in account service fees.

Total wages for those covered under the plan was \$27,341 and total wages for all employees including noncovered payroll was \$28,716.

C. Fire Protection Contracts

An agreement was entered into between the City of Clare and the Township for fire protection. The agreements terms call for the Township to pay each year an amount equal to .9 mill of taxable valuation of all property in the area covered by the agreement. During the fiscal year April 1, 2005 to March 31, 2006 the Township paid expense totaling \$22,346.

The Township also has an agreement for fire protection for a portion of the Township with the Isabella N.E. Fire District. The amount paid under this agreement for the 2005-2006 year was \$8,700.

D. Property Tax Administration Fee

The Township passed a resolution to charge a 1% administration fee for the summer tax rolls on all ad valorem, taxes levied. The resolution is to continue in force and effect until revoked by the township board.

VERNON TOWNSHIP, ISABELLA COUNTY

CLARE, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE

MAJOR GOVERNMENTAL FUNDS

YEAR ENDED MARCH 31, 2006

	G	ENERAL FUN	ND	STREET LIGHTING FUND			GARBAGE AND RUBBISH COLLECTION FUND						
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL		RIGINAL UDGET	FINAL BUDGET	ACTUAL		RIGINAL BUDGET	1	FINAL BUDGET	A	CTUAL
<u>REVENUES</u>													
Taxes	\$ 31,300	\$ 31,300	\$ 38,451	\$	1,250	\$1,250	\$1,300	\$	72,000	\$	72,000	\$	76,834
Licenses and Permits	0	0	1,143		0	0	0		0		0		0
State Grants	98,000	98,000	101,685		0	0	0		0		0		0
Charges for Services	2,375	2,375	4,795		0	0	0		0		0		0
Interest and Rents	1,150	1,150	3,858		0	0	0		0		0		0
Other Revenues	1,350	1,350	2,453		0	0	0		0		0		0
Total Revenues	\$134,175	\$134,175	\$152,385	\$	1,250	\$1,250	\$1,300	\$	72,000	\$	72,000	\$	76,834
<u>EXPENDITURES</u>													
Legislative	\$ 3,864	\$ 3,864	\$ 3,864	\$	0	\$ 0	\$ 0	\$	0	\$	0	\$	0
General Government	58,872	58,872	62,872		0	0	0		0		0		0
Public Safety	31,047	31,047	31,047		0	0	0		0		0		0
Public Works	12,708	12,708	12,708		1,100	1,100	1,096		72,000		72,000		69,325
Recreation and Cultural	556	556	556		0	0	0		0		0		0
Other Functions	10,842	10,842	10,802		0	0	0		0		0		0
Total Expenditures	\$117,889	\$117,889	\$121,849	\$	1,100	\$1,100	\$1,096	\$	72,000	\$	72,000	\$	69,325
Net Change in Fund Balance	\$ 16,286	\$ 16,286	\$ 30,536	\$	150	\$ 150	\$ 204	\$	0	\$	0	\$	7,509
FUND BALANCE - Beginning of Year	76,498	76,498	90,319		727	727	963		50,519		50,519		64,241
FUND BALANCE - End of Year	\$ 92,784	\$ 92,784	\$120,855	\$	877	\$ 877	\$1,167	\$	50,519	\$	50,519	\$	71,750

GENERAL FUND

BALANCE SHEET MARCH 31, 2006

ASSETS

Cash	\$	106,379
Taxes Receivable		22
Due From Tax Fund		5
Due From Other Government		15,056
TOTAL ASSETS	\$	121,462
LIABILITIES AND FUND BALANCE		
LIABILITIES		
Payroll Withholdings	\$	607
FUND BALANCE		
Balance		
Unreserved		
Undesignated		120,855
TOTAL LIABILITIES AND FUND BALANCE	¢	121,462
TOTAL LIADILITIES AND FUND DALANCE	φ	121,402

<u>GENERAL FUND</u> <u>SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE</u> <u>BUDGET AND ACTUAL</u>

FOR THE YEAR ENDED MARCH 31, 2006

Licenses and Permits 0 0 1,1 State Grants 98,000 98,000 101,6 Charges for Services 2,375 2,375 4,7 Interest and Rents 1,150 1,150 3,8 Other Revenues 1,350 1,350 2,4 Total Revenues \$ 134,175 \$ 134,175 \$ 152,3 EXPENDITURES Legislative \$ 3,864 \$ 3,864 \$ 3,864 \$ 3,8 General Government \$ 3,864 \$ 3,864 \$ 3,8 \$ 3,8 General Government \$ 9,708 9,708 9,7 \$ 9,7 \$ 9,708 9,7 \$ 9,2			BUDGET				2006		
Taxes \$ 31,300 \$ 31,300 \$ 38,4 Licenses and Permits 0 0 1,1 State Grants 98,000 98,000 101,6 Charges for Services 2,375 2,375 4,7 Interest and Rents 1,150 1,150 3,8 Other Revenues 1,350 1,350 2,4 Total Revenues \$ 134,175 \$ 134,175 \$ 152,3 EXPENDITURES Stepsolative \$ 3,864 \$ 3,864 \$ 3,864 \$ 3,8 General Government Supervisor 9,708 9,708 9,7 \$ 9,7 \$ 18 18 4,0 4,0 4,0 4,0 4,0 4,0 1,3<		Ol	RIGINAL		FINAL	A	CTUAL		
Licenses and Permits 0 0 1,1 State Grants 98,000 98,000 101,6 Charges for Services 2,375 2,375 4,7 Interest and Rents 1,150 1,150 3,8 Other Revenues 1,350 1,350 2,4 Total Revenues \$ 134,175 \$ 134,175 \$ 152,3 EXPENDITURES Legislative \$ 3,864 \$ 3,864 \$ 3,864 \$ 3,8 General Government \$ 3,864 \$ 3,864 \$ 3,8 \$ 3,8 General Government \$ 9,708 9,708 9,7 \$ 9,7 \$ 9,708 9,7 \$ 9,2	REVENUES								
State Grants 98,000 98,000 101,6 Charges for Services 2,375 2,375 4,7 Interest and Rents 1,150 1,150 3,8 Other Revenues 1,350 1,350 2,4 Total Revenues \$ 134,175 \$ 134,175 \$ 152,3 EXPENDITURES Legislative Township Board \$ 3,864 \$ 3,864 \$ 3,8 General Government Supervisor 9,708 9,708 9,7 Election 18 18 4,0 Assessor 13,841 13,841 13,841 Clerk 11,564 11,564 11,564 Board of Review 1,318 1,318 1,318 Treasurer 11,578 11,578 11,578 Building and Grounds 6,190 6,190 6,19 Cemetery 4,655 4,655 4,65 Public Safety 31,047 31,047 31,047 31,047 Public Works 12,708 12,708	Taxes	\$	31,300	\$	31,300	\$	38,451		
Charges for Services 2,375 2,375 4,7 Interest and Rents 1,150 1,150 3,8 Other Revenues 1,350 1,350 2,4 Total Revenues \$ 134,175 \$ 134,175 \$ 152,3 EXPENDITURES Legislative Township Board \$ 3,864 \$ 3,864 \$ 3.8 General Government Supervisor 9,708 9,708 9,70 Election 18 18 4,0 Assessor 13,841 13,841 13,841 Clerk 11,564 11,564 11,5 Board of Review 1,318 1,318 1,318 Treasurer 11,578 11,578 11,578 Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,655 Public Safety 31,047 31,047 31,047 Public Works 12,708 12,708 12,708 Recreation and Cultural 556 556 5 <td>Licenses and Permits</td> <td></td> <td>0</td> <td></td> <td>0</td> <td></td> <td>1,143</td>	Licenses and Permits		0		0		1,143		
Interest and Rents Other Revenues 1,150 1,350 1,350 2,4 Total Revenues \$ 134,175 \$ 134,175 \$ 152,3 EXPENDITURES Legislative Township Board \$ 3,864	State Grants		98,000		98,000		101,685		
Other Revenues 1,350 1,350 2,4 Total Revenues \$ 134,175 \$ 134,175 \$ 152,3 EXPENDITURES Legislative Township Board \$ 3,864 \$ 3,864 \$ 3,864 \$ 3,8 General Government Supervisor 9,708 9,708 9,7 9,7 Election 18 18 4,0 4,6 4,0 5,0 4,0	Charges for Services		2,375		2,375		4,795		
Total Revenues	Interest and Rents		1,150		1,150		3,858		
EXPENDITURES Legislative \$ 3,864 \$ 3,864 \$ 3,864 \$ 3,8 \$ 3,864	Other Revenues		1,350		1,350		2,453		
Legislative \$ 3,864 \$ 3,864 \$ 3,864 \$ 3,884 General Government \$ 9,708 9,708 9,7 Supervisor 9,708 9,708 9,7 Election 18 18 4,0 Assessor 13,841 13,841 13,8 Clerk 11,564 11,564 11,5 Board of Review 1,318 1,318 1,3 Treasurer 11,578 11,578 11,5 Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,0 Public Works 12,708 12,708 12,70 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,8 Excess (Deficiency) of Revenues \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues \$ 16,286 \$ 30,5	Total Revenues	\$	134,175	\$	134,175	\$	152,385		
Township Board \$ 3,864 \$ 3,864 \$ 3,864 General Government \$ 9,708 9,708 9,7 Election 18 18 4,0 Assessor 13,841 13,841 13,8 Clerk 11,564 11,564 11,5 Board of Review 1,318 1,318 1,3 Treasurer 11,578 11,578 11,5 Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,047 Public Works 12,708 12,708 12,70 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,8 Excess (Deficiency) of Revenues \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues \$ 16,286 \$ 30,5	<u>EXPENDITURES</u>								
General Government 9,708 13,841 13,841 13,841 13,841 13,841 13,841 13,841 13,841 13,841 13,841 11,564 11,564 11,564 11,564 11,564 11,564 11,564 11,564 11,564 11,584 11,58 11,58 11,58 11,58 11,58 11,58 11,578 13,047 31,047 <td>Legislative</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	Legislative								
Supervisor 9,708 9,708 9,7 Election 18 18 4,0 Assessor 13,841 13,841 13,841 Clerk 11,564 11,564 11,5 Board of Review 1,318 1,318 1,3 Treasurer 11,578 11,578 11,5 Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,0 Public Works 12,708 12,708 12,70 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,8 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues \$ 16,286 \$ 30,5	Township Board	\$	3,864	\$	3,864	\$	3,864		
Election 18 18 4,0 Assessor 13,841 13,841 13,841 13,8 Clerk 11,564 11,564 11,5 Board of Review 1,318 1,318 1,3 Treasurer 11,578 11,578 11,5 Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,0 Public Works 12,708 12,708 12,70 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,8 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues \$ 16,286 \$ 30,5	General Government								
Assessor 13,841 13,841 13,841 13,841 13,841 13,841 13,841 11,564 11,564 11,564 11,564 11,564 11,564 11,578 4,655	Supervisor		9,708		9,708		9,708		
Clerk 11,564 11,564 11,564 11,5 Board of Review 1,318 1,318 1,3 Treasurer 11,578 11,578 11,5 Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,047 31,0 Public Works 12,708 12,708 12,70 12,7 Recreation and Cultural 556 556 5 5 Other Functions 10,842 10,842 10,8 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues \$ 16,286 \$ 30,5	Election		18		18		4,018		
Board of Review 1,318 1,318 1,318 Treasurer 11,578 11,578 11,5 Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,047 31,0 Public Works 12,708 12,708 12,70 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,842 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues Over Expenditures \$ 16,286 \$ 30,5	Assessor		13,841		13,841		13,841		
Treasurer 11,578 11,578 11,5 Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,0 Public Works 12,708 12,708 12,70 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,8 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues \$ 16,286 \$ 30,5	Clerk		11,564		11,564		11,564		
Building and Grounds 6,190 6,190 6,1 Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,04 Public Works 12,708 12,708 12,70 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,842 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues \$ 16,286 \$ 30,5	Board of Review		1,318		1,318		1,318		
Cemetery 4,655 4,655 4,6 Public Safety 31,047 31,047 31,0 Public Works 12,708 12,708 12,7 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,8 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues Over Expenditures \$ 16,286 \$ 16,286 \$ 30,5	Treasurer		11,578		11,578		11,578		
Public Safety 31,047 31,047 31,047 Public Works 12,708 12,708 12,70 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,842 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues Over Expenditures \$ 16,286 \$ 30,5	Building and Grounds		6,190		6,190		6,190		
Public Works 12,708 12,708 12,708 Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,8 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues Over Expenditures \$ 16,286 \$ 16,286 \$ 30,5	Cemetery		4,655		4,655		4,655		
Recreation and Cultural 556 556 5 Other Functions 10,842 10,842 10,8 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues Over Expenditures \$ 16,286 \$ 30,5	Public Safety		31,047		31,047		31,047		
Other Functions 10,842 10,842 10,8 Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues \$ 16,286 \$ 16,286 \$ 30,5	Public Works		12,708		12,708		12,708		
Total Expenditures \$ 117,889 \$ 117,889 \$ 121,8 Excess (Deficiency) of Revenues Over Expenditures \$ 16,286 \$ 16,286 \$ 30,5	Recreation and Cultural		556		556		556		
Excess (Deficiency) of Revenues Over Expenditures \$ 16,286 \$ 16,286 \$ 30,5	Other Functions		10,842		10,842		10,802		
Over Expenditures \$ 16,286 \$ 16,286 \$ 30,5	Total Expenditures	\$	117,889	\$	117,889	\$	121,849		
	Excess (Deficiency) of Revenues								
FUND BALANCE - Beginning of Year 76,498 76,498 90,3	Over Expenditures	\$	16,286	\$	16,286	\$	30,536		
	FUND BALANCE - Beginning of Year		76,498		76,498		90,319		
<u>FUND BALANCE</u> - End of Year \$ 92,784 \$ 92,784 \$ 120,8	FUND BALANCE - End of Year	_\$	92,784	\$	92,784	\$	120,855		

SPECIAL REVENUE FUNDS

COMBINING BALANCE SHEET MARCH 31, 2006

		STREET LIGHTING		RBAGE RUBBISH LECTION	TOTAL		
<u>ASSETS</u> Cash	\$	1,167	\$	71,750	\$	72,917	
LIABILITIES AND FUND BALANCE							
<u>LIABILITIES</u>	\$	0	\$	0	\$	0	
FUND BALANCE Reserved for Street Lighting Reserved for Corbons and	\$	1,167			\$	1,167	
Reserved for Garbage and Rubbish Collection				71,750		71,750	
Total Fund Balance	\$	1,167	\$	71,750	\$	72,917	
TOTAL LIABILITIES AND FUND BALANCE	\$	1,167	\$	71,750	\$	72,917	

SPECIAL REVENUE FUNDS

COMBINING SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED MARCH 31, 2006

	 GARBAGE				
	STREET LIGHTING		RUBBISH LECTION	Т	OTAL
REVENUES Taxes	\$ 1,300	\$	76,834	\$	78,134
EXPENDITURES Public Works	 1,096		69,325		70,421
Excess (Deficiency) of Revenues Over Expenditures	\$ 204	\$	7,509	\$	7,713
FUND BALANCE - Beginning of Year	 963		64,241		65,204
FUND BALANCE - End of Year	\$ 1,167	\$	71,750	\$	72,917

STREET LIGHTING FUND

BALANCE SHEET MARCH 31, 2006

ASSETS

Cash	\$ 1,167
LIABILITIES AND FUND BALANCE	
LIABILITIES	\$ 0
FUND BALANCE Reserved for Street Lighting	 1,167
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,167

STREET LIGHTING FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FOR THE YEAR ENDED MARCH 31, 2006

		BUDGET					
	OR	ORIGINAL		FINAL		ACTUAL	
REVENUES							
Taxes							
Current Property Tax	\$	1,250	\$	1,250	\$	1,300	
<u>EXPENDITURES</u>							
Public Works							
Street Lighting							
Other Services and Charges							
Public Utilities		1,100		1,100		1,096	
Excess (Deficiency) of Revenues							
Over Expenditures	\$	150	\$	150	\$	204	
FUND BALANCE - Beginning of Year		727		727		963	
FUND BALANCE - End of Year	\$	877	\$	877	\$	1,167	

GARBAGE AND RUBBISH COLLECTION FUND

BALANCE SHEET MARCH 31, 2006

Cash LIABILITIES AND FUND BALANCE LIABILITIES LIABILITIES \$ 0 FUND BALANCE Reserved for Garbage and Rubbish Collection TOTAL LIABILITIES AND FUND BALANCE \$ 71,750

VERNON TOWNSHIP, ISABELLA COUNTY CLARE, MICHIGAN

GARBAGE AND RUBBISH COLLECTION FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL FOR THE YEAR ENDED MARCH 31, 2006

	BUDGET					
	ORIGINAL		FINAL		ACTUAL	
REVENUES						
Taxes						
Current Property Taxes	\$	72,000	\$	72,000	\$	76,834
<u>EXPENDITURES</u>						
Public Works						
Sanitation						
Other Services and Charges						
Contracted Waste Pickup	\$	72,000	\$	72,000	\$	69,325
Excess (Deficiency) of Revenues Over Expenditures	\$	0	\$	0	\$	7,509
FUND BALANCE - Beginning of Year		50,519		50,519		64,241
FUND BALANCE - End of Year	\$	50,519	\$	50,519	\$	71,750

CEMETERY PERPETUAL CARE FUND

BALANCE SHEET MARCH 31, 2006

ASSETS	
Cash	\$ 23,799
LIABILITIES AND FUND BALANCE	
<u>LIABILITIES</u>	\$ 0
FUND BALANCE Reserved for Cemetery Perpetual Care	 23,799
TOTAL LIABILITIES AND FUND BALANCE	\$ 23,799

<u>CEMETERY PERPETUAL CARE FUND</u> STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES	
Charges for Services	
Cemetery Lot Sales	\$ 750
Interest and Rents	
Interest Earnings	 4
Total Revenues	\$ 754
<u>EXPENDITURES</u>	 0
Excess (Deficiency) of Revenues Over Expenditures	\$ 754
FUND BALANCE - Beginning of Year	 23,045
FUND BALANCE - End of Year	\$ 23,799

CURRENT TAX COLLECTION FUND

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES YEAR ENDED MARCH 31, 2006

	ALANCE /1/2005	ΔΓ	DITIONS	DF	DUCTIONS		ANCE /2006
	 71/2003	7112	DITIONS	DL	DUCTIONS	3/31	72000
ASSETS							
Cash	\$ 31,042	\$	990,074	\$	1,021,111	\$	5
LIABILITIES							
Due to Other Funds	\$ 15,552	\$	119,781	\$	135,328	\$	5
Due to Other Organizations and Individuals	0		2,989		2,989		0
Due to Other Governments	 15,490		867,304		882,794		0
Total Liabilities	\$ 31,042	\$	990,074	\$	1,021,111	\$	5

$\frac{\text{STATEMENT OF 2005 SUMMER TAX ROLL}}{\text{MARCH 31, 2006}}$

County - State Education Tax	 11,483	\$ 15,524
County	\$ 4,041	
TAXES RETURNED DELINQUENT		
County - State Education Tax	 100,074	 240,120
County - State Education Tax	180,074	246,120
County	\$ 66,046	
TAXES COLLECTED		
County - State Education Tax	 191,557	\$ 261,644
County	\$ 70,087	
TAXES ASSESSED		

STATEMENT OF 2005 WINTER TAX ROLL MARCH 31, 2006

TAXES ASSESSED		
County	\$ 204,059	
Township		
Operating	31,675	
Street Lighting	1,300	
Garbage and Rubbish Collection	76,834	
Schools		
Beal City Public Schools	891	
Clare Public Schools	202,885	
Farwell Area Schools	20,807	
Mt. Pleasant Public Schools	41,200	
Intermediate School		
Gratiot Isabella Intermediate	21,974	
Clare Gladwin Inermediate	55,445	
Community College		
Mid Michigan Community College	33,357	
Library		
Pere Marquette District Library	26,926	
Chippewa River District Library	8,442	\$ 725,795
		_
TAXES COLLECTED		
County	\$ 183,126	
Township		
Operating	28,566	
Street Lighting	1,127	
Garbage and Rubbish Collection	65,931	
Schools		
Beal City Public Schools	891	
Clare Public Schools	179,903	
Farwell Area Schools	16,697	
Mt. Pleasant Public Schools	39,094	
Intermediate School		
Gratiot Isabella Intermediate	20,754	
Clare Gladwin Inermediate	49,307	
Community College		
Mid Michigan Community College	29,632	
Library		
Pere Marquette District Library	23,968	
Chippewa River District Library	7,912	646,908

STATEMENT OF 2005 WINTER TAX ROLL MARCH 31, 2006

TAXES RETURNED DELINQUENT

County	\$ 2	0,933	
Township			
Operating		3,109	
Street Lighting		173	
Garbage and Rubbish Collection	1	0,903	
Schools			
Beal City Public Schools		0	
Clare Public Schools	2	2,982	
Farwell Area Schools		4,110	
Mt. Pleasant Public Schools		2,106	
Intermediate School			
Gratiot Isabella Intermediate		1,220	
Clare Gladwin Inermediate		6,138	
Community College			
Mid Michigan Community College		3,725	
Library			
Pere Marquette District Library		2,958	
Chippewa River District Library		530	\$ 78,887

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601 231-775-9789 FAX: 231-775-9749

M. WAYNE BEATTIE, C.P.A. 1902 - 1990 JACK H. BAIRD, C.P.A. JERRY L. COTTER, C.P.A. DALE D. COTTER, C.P.A.

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DOUGLAS P. McMULLEN, C.P.A.

JOHN F. TAYLOR, C.P.A. STEVEN C. ARENDS, C.P.A. SCOTT A. HUNTER., C.P.A. JONATHAN E. DAMHOF, C.P.A. MICHAEL D. COOL, C.P.A.

Baird, Cotter and Bishop, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

June 21, 2006

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Township Board Vernon Township Isabella County Clare, Michigan

Having completed our audit of the financial statements of Vernon Township for the year ended March 31, 2006, we would like to note the following:

GASB 34

The Governmental Accounting Standards Board has issued Statement #34. We have assisted the Township with complying with the GASB 34 requirements of the State of Michigan and GASB. The financial statements are quite different as a result of this drastic change. We recommend the board review the new financial statements, and we are available to help explain the changes in detail, if needed.

Accounting Records

The Township Clerk and Treasurer are doing a fine job of maintaining the accounting records in a manner which complies with the State's uniform accounting system.

Property Tax Administration Fee

As reported in Note IV. D of the Notes to Financial Statements, the Township is now charging a 1% property tax administration fee on the summer tax rolls. The Township has determined that authorized costs of tax collection will be repeatedly in excess of revenue generated by the administration fee but has not formally taken action to write off this loss. We recommend that the Township keep subsidiary records which reflect property tax administration fee collections and costs and that the board pass a motion to write off the loss annually.

We would like to thank the Board for its continued confidence in our firm by awarding us the audit assignment of the Township. We would also like to thank the Clerk and Treasurer for their cooperation in helping us fulfill the audit of the Township records.

If you have any questions relative to the above comments and recommendations or other areas of your annual accounting, please feel free to call on us.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotte & Bishop, P.C.

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CERTIFIED PUBLIC ACCOUNTANTS

June 21, 2006

LETTER OF REPORTABLE CONDITIONS

To the Township Board Vernon Township Isabella County Clare, Michigan

In planning and performing our audit of the basic financial statements of Vernon Township, Isabella County, Clare, Michigan for the year ended March 31, 2006, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

The relatively small number of people involved in the accounting functions of the Township and the design of the accounting system as developed by the state make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cottle & Bishop, P.C.